SECTORAL REPORT

YUKON DEVELOPMENT STRATEGY

MINING

YUKON · 2000

Building the Future

Yukon
Government

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YUKON 2000

SECTORAL REVIEW - MINING

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Sectoral Review

Mining

1) Historic and Existing Sector Description

The recent history of Yukon (the last 100 years) centers around mining. Beginning with the Klondike Gold rush mining has been responsible for much of the development of the Yukon. The exception was probably the war period which saw the building of the Alaska highway. The wealth produced by Yukon's relatively rich deposits (largely precious metals) has resulted in some feats of engineering by industry that we can be proud of. Among these are the White Pass and Yukon Railway, an early coal fired power generating system and power grid in the Dawson area (which was later followed by hydro power), the 70 (?) mile system of ditching and piping to bring water to the placer miners south of Dawson, the (then) largest wooden hulled dredge in the world, and a system of river boat shipping.

After the second world war the pace of hardrock exploration and development picked up and hit a boom period with the Clinton Creek Asbestos, Whitehorse Copper, and Anvil Mines coming into production. Placer mining which had continued to decline slowly since the first Klondike boom was over, also hit a boom in the late 1970's as gold prices sky-rocketed. During the "boom" years (1977 to 1981) mineral production was valued at an average of $250 million (market value of metals).

With the 1982 depression and drop in metal prices the generally "fat" mining companies throughout Canada had to trim costs dramatically to stay alive or face shutdown. In

Yukon the hardrock mines with their incrementally higher labour costs, transportation costs, and other operating costs either had to shutdown (Cyprus Anvil, and United Keno Hill Mines) or had to trim costs significantly and rework operating plans to break even (re-opened United Keno Hill Mines). During the lean years of 1983 to 1985 placer mining alone accounted for over 3/4 of the value of mineral production of about $60 million.

At present mining activity is again increasing but not so much because of strengthening metal prices but because of a decrease in operating costs (Curragh's Faro mine, and United Keno Hill Mines). Most new mines (or potential new mines) such as Mount Skukum are focusing on gold. With Skukum in operation and other possibilities in sight (Ketza River, Dawson Range) Yukon's mining industry will be getting more diversified and stronger. The very recent strengthening of precious metal prices and the bringing of the Curragh Faro mine into full production should increase mineral production value in the coming years, again approaching the high levels of previous "boom" years.

2) Significance to the Yukon Economy

To put the contribution of mineral production in Yukon into perspective the share of income to Yukon from mining in terms of total territorial income (based on income multipliers from the Yukon input-output table) in 1981 was around 40%. In 1985 in its depressed state it was about 12%. These figures do not include the additional benefits from exploration and development activity. Clearly mining is a major contributor to the Yukon economy, and will remain so for the foreseeable future.

3) Constraints to Growth by Relative Importance

a) Within Yukon

(1) The present limited access to the land base for exploration and development restricts these activities. It has been perceived that government attitudes towards the building of access roads are somewhat negative.

(2) Other types of infrastructure are also very important to mining. Without the investment of public funds in infrastructure in the past we might not have had the mining industry we do today. Roads and airports with appropriate specifications depending on their use, are needed. Over specification in the past has increased estimated costs and reduced building activity.

(3) High power costs, whether for purchased grid power or self generated power, raises operating costs. This has the effect of making otherwise economic projects uneconomic or reduces the reserves that can be economically treated.

(4) Various aspects of government have been said to be an impediment to development. Concerning the environment several pieces of legislation conflict or overlap, and this has had a negative effect on investment. The lack of policy concerning mining has also received criticism. Examples cited include the long lead time required to satisfy all of the departments involved in application review processes. The lack of a positive attitude towards economic development among bureaucrats is perceived to be due to a lack of policy.

Other concerns expressed included nervousness over possible changes in legislation with devolution, and the lack of public accountability of the Regional Environmental Review Committee.

(5) The high cost of labour adds significantly to operating costs. High levels of wages and benefits as well as the limited size of the labour/talent pool are seen as factors in this. Management, government, and labour have all contributed to the high expectations currently prevalent in Yukon.

(6) High capital costs due to increased transportation costs, labour costs etc. all play a part. Smaller projects (or projects by small companies) are often very sensitive to capital costs.

(7) Land withdrawn from staking (and therefore from exploration and mining activity) in Yukon is the highest of any province or territory (figures show as much as 16.5%). This has created the impression that mining is unwelcome.

(8) The geological mapping of the Yukon is proceeding at a relatively slow pace. Such information is valuable to prospectors and companies alike.

(9) Limited road access or poor quality roads servicing producing operations hamper the movement of supplies in and products out. Higher transportation costs translate into higher operating costs.

(10) There is nervousness or unease in the mining community about the unsettled nature of land claims. The question that is asked is "what will the cost of a settlement be to us?" The Coolican approach would be very unwelcome.

(11) The terrain of Yukon makes the possibility of fly in - fly out operations more difficult. Improved airport navigational aids are urgently needed if such operations are to be established.

(12) The native perception of mining also influences exploration - development decisions. Their suspicion of development because of questions about how they will be affected and fit in can be a discouragement to investment.

(13) A generally negative public perception of mining has also affected how the politicians react to mining issues.

b) Outside Yukon

(1) Currently the organizations that control flow through share funds have significant control over where the money is spent. In this regard we are in competition for funds with the rest of Canada.

(2) We are also in competition for exploration and development funds that companies control themselves. The relative ease, cost, and apparent desirability of exploring and mining elsewhere whether real or not, affects the funds available for Yukon projects.

(3) The world market prices of metals or mineral products has an effect on the profitability of Yukon projects, especially considering the higher operating costs encountered here.

(4) There are also tariff and non-tariff barriers in the rest of the world (particularly third world countries) that have an effect. In some countries mines have lower operating costs (lower labour costs as well as lower building, safety and environmental standards), while in others there are import tariffs that protect their own industry. In still other countries production is geared to foreign exchange earnings, thus as world prices decline production is pushed up.

(5) There is also investor ignorance about the mineral potential in Yukon, resulting in less than a fair share of funds available to Yukon based on its mineral potential.

4) Opportunities to Reduce Constraints

(a) Government must ensure that economic development is a very high priority in all branches of the civil service. This includes ensuring that a positive attitude toward development prevails and that there are deadlines in place for dealing with various applications.

(b) Government financing of the required infrastructure would be a significant boost to the industry. Road access to towns and to mining developments, with the appropriate standards, can significantly reduce supply costs, construction costs and product transport costs.

In developing upgraded roads there must be consideration for the future not just the present. The provision of low standard exploration roads would reduce the transport component of exploration costs and attract new investment money. These roads could be upgraded as new mining operations are established.

The provision of airport facilities with modern navigational aids can reduce the capital required for new developments by eliminating the need for new mining towns. This also allows the residents of existing towns to benefit.

The power components of both capital and operating costs for mines are significant portions of the respective totals. Assistance with, or the provision of, reasonable cost power by extension of the current grid or by other means can significantly reduce these (capital and operating) costs. This has the effect of expanding reserves that can be mined and processed at a profit.

Communications costs are also significant and any aid or provision of these would be of benefit.

(c) The government must ensure that the resource base is available for staking, exploration, and development by keeping withdrawals for various reasons to an absolute minimum.

(d) Government and industry should ensure that the market system is working. The government can assist by dispensing market information (suppliers may be reluctant) and knowledge which encourages competitive pricing. It was felt that government could encourage more competition in pricing (e.g. for fuels) by going out further a field in their tendering prices.

(e) Adequate resources should be made available to continue and expand the program of geoscience data gathering, particularly 1:50,000 scale geological mapping. This information in very useful to prospectors and exploration crews, as is the geochemical work being done by the GSC.

(f) The regulatory regime must be streamlined and simplified. This will help reduce the complexity resulting from overlapping statutes and create an atmosphere of certainty. A "one window" approach should be developed as devolution proceeds and more control falls within YTG jurisdiction.

(g) Stimulation programs now in place should be continued. In addition to the important financial aid, these provide the realization by those who control exploration and development funds that Yukon has a positive attitude towards mining. Government support of mining is an important factor in the attraction of outside investment.

(h) A more pro-active approach must be taken in environmental issues that affect our mining industry. Implementing recommendations of the Placer Mining Task Force Report is one example, and industry involvement in the development of restoration and reclamation requirements is another.

(i) Some effort could be expended by all parties involved to dispel the myths about Yukon's terrain and climate. To bring perceptions in line with reality would help the industry. The addition of infrastructure further increases the activities of exploration and development.

(j) Government wage and benefit scales could be moderated to come back into line with private industry once again. Labour cost are to some degree a reflection of the cost of living, and as this is moderated by other measures, all parties should expect to effect reductions in labour costs.

(k) Companies should put more effort into the recruitment of people who would be happy in the north rather than pay higher wages and benefits to entice "Southerners" up here with resulting high turnover rate. Along with this a greater effort should be made to develop the locally available labour pool through training or other means. These people would represent a stable work force, but this may require some adjustment in labour relations philosophy. Government could help fund industry and (trade) unions to accomplish this training.

(l) When considering or encouraging growth or expansion, the government agencies or departments most directly involved should consider the trends and condition in the rest of the country (and the world) as Yukon cannot live or grow in isolation.

(m) It has been suggested that government might consider taking a limited equity position in private developments in return for providing infrastructure or financial guarantee. It was felt that government representation on a board of directors might also help cut through "red tape" during project development. However, there is no consensus on this issue.

5) Other Options Available for Increasing Sectoral Activity.

(a) Other jurisdictions could be lobbied to reduce their participation in some parts of the industry, such as involvements in the financing of large ventures (smelter upgrading, very large projects) and the "bidding" for plant locations. This type of activity generally puts the smaller and more northerly operations at a disadvantage.

While this option is inconsistent with some other suggestions it is an available option.

(b) Increased government participation with industry in practical mining research, could benefit mining in Yukon. The Economic Development Agreement (EDA) studies are an example of this participation.

(c) Government assistance in accessing capital for financing purposes - especially smaller operations - would be of great assistance.

(d) Private industry and government could jointly advertise to encourage continued and increased "outside" investment. This is important as most of the money for exploration and development comes from the "outside."